

5 Common Misperceptions About Retirement Planning

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Misperception #1: You don't have to start planning until a year or so before you retire. Sure, you may have been *saving* for your retirement for many years, but have you really been *planning*? Research suggests that people who take the time to plan ahead end up with more resources when they are ready to retire. Once you know your basic goals - your retirement age, the type of lifestyle you want, and how much income you'll need - you can plot a path to achieve them. If you wait until the last minute, you won't have time to fill the potential gap between expenses and retirement income.

Misperception #2: Once you retire, your money only has to last a few years. As life expectancies grow, financial planners now recommend that you ensure you'll have enough retirement income through age 90 or even 100. If you work even a year or two longer than you have planned, you can improve your situation by saving more, probably increasing your Social Security benefit and reducing the number of years in retirement.

Misperception #3: The human resources office at work will give you all the information you need to make your financial plans for retirement. Your employer is required by federal law to provide basic information about your pension, 401(k) or other retirement account at work - such as the date when you become eligible to receive a pension, how much it will be if you retire on different dates, and the options for drawing money out of your 401(k) or similar retirement account. But your employer has no obligation to educate you about other important retirement topics. To develop a complete picture, you either need to spend time reading and informing yourself, or locate and work with a financial adviser you can trust.

Misperception #4: You can count on consistent, strong investment returns to pay your bills when you retire. During the last 75 years or so, the returns on investments in stock have averaged about 11 percent per year. But the market shocks of the last year or two show that if you happen to retire when the market is down, you could end up with much less income than you expected. This experience suggests some basic lessons:

- Diversify your investments in different industries and different forms, such as stocks, bonds, mutual funds and real estate.
- When you make your financial plan for retirement, assume a conservative rate of return on investments (currently, planners suggest around 4 to 8 percent per year), and don't forget to account for inflation (currently, planners suggest 3 percent per year).

Misperception #5: Medicare will cover the cost of long-term care. About 31 percent of older Americans mistakenly believe they have insurance (perhaps Medicare) that covers long-term care. The reality is, Medicare does not cover long-term nursing home stays. And the average monthly cost of a nursing-home stay is \$4,654 - meaning that an unprepared retiree will burn through savings pretty fast.

